

REPORT TO CONGRESS ON THE PROGRESS OF THE VESSEL DISPOSAL PROGRAM

July 2008



Maritime Administration James River Reserve Fleet.



**U. S. Department of Transportation
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List of Acronyms

Army Corp of Engineers	(ACE)
Best Management Practices	(BMP)
Beaumont Reserve Fleet	(BRF)
Clean Water Act	(CWA)
Comprehensive Management Plan	(CMP)
Deep Sink Exercises	(SINKEX)
Department of Defense	(DOD)
Environmental Agency	(EA)
Environmental Protection Agency	(EPA)
Environmental Excellence Initiative	(EEI)
Federal Acquisition Regulation	(FAR)
Fiscal Year	(FY)
Hartlepoole Borough Council	(HBC)
Indefinite-Delivery\Indefinite-Quantity	(IDIQ)
James River Reserve Fleet	(JRRF)
Memorandum of Agreement	(MOA)
National Defense Reserve Fleet	(NDRF)
National Invasive Species Act	(NISA)
National Environment Protection Act	(NEPA)
National Marine Fisheries Services	(NMFS)
National Oceanic and Atmospheric Administration	(NOAA)
Polychlorinated biphenyls	(PCB)
Suisun Bay Reserve Fleet	(SBRF)
Supervisor of Shipbuilding Conversion and Repair	(SUPSHIP)
Toxic Substance Control Act	(TSCA)
Uniform National Discharge Standards	(UNDS)
United Kingdom Environment Agency	(UKEA)
United States Coast Guard	(USCG)
Waste Management License	(WML)
Water Quality Control Board	(WQCB)

Report to Congress on the Progress of the Vessel Disposal Program

INTRODUCTION

This report is submitted pursuant to the following statutory direction:

- The Senate Report [109-109, July 26, 2005] accompanying the Transportation, Treasury, Housing and Urban Development, the Judiciary, the District of Columbia, and Independent Agencies Appropriations Act, 2006, P.L.109-115; 119 Stat. 2396 (2005), which requests periodic reporting on the progress made by the Maritime Administration to dispose of the entire inventory of obsolete ships within the National Defense Reserve Fleet (NDRF).
- The National Defense Authorization Act for Fiscal Year 2006, P.L. 109-163, Section 3505(a); 119 Stat. 3551 (2006), which requires periodic reporting by the Secretary of Transportation, in coordination with the Secretary of the Navy, on progress made in implementing plans to dispose of obsolete ships in its programs.

Section I of this consolidated program report summarizes the Maritime Administration's ship disposal accomplishments through the second quarter of Fiscal Year (FY) 2008 and outlines the ship disposal outlook and challenges for the remainder of 2008. A review of the previous reports of the Ship Disposal Program, hereafter referred to as the Program, provides a historical perspective prior to FY 2007. In coordination with the Secretary of the Navy, this Report also includes in Section II the progress of the U.S. Navy's vessel disposal program.

I. MARITIME ADMINISTRATION SHIP DISPOSAL ACTIVITIES IN FISCAL YEARS 2007-2008

Overview

The Floyd D. Spence National Defense Authorization Act for Fiscal Year 2001, Pub. L. 106-398, § 3502, 114 Stat. 1654A-490 (2000) (the Act), required the disposal by September 30, 2006, of all vessels in the Maritime Administration's NDRF that were not assigned to the Ready Reserve Force or otherwise designated for a specific purpose. In 2001, the Maritime Administration established the Program to accomplish the requirements of the Act. Since the establishment of the Program, the Maritime Administration has aggressively pursued all feasible disposal alternatives including domestic recycling, the sale of ships for re-use, artificial reefing, deep-sinking, donation, and the potential for foreign recycling.

Significant capacity limitations within the domestic recycling industry at that time and in the intervening years made conventional dismantling inadequate as the predominant means to dispose of all of the Maritime Administration's non-retention vessels by the September 2006 deadline as required by the Act. There were a total of eight qualified domestic facilities as of the end of FY 2007 to compete for recycling contracts, seven of which have been awarded

dismantling contracts by the Maritime Administration, and the eighth not competitive from a best-value standpoint. In addition, in October 2007, one qualified facility located in Baltimore, Maryland, ceased operations causing the Maritime Administration to terminate six recycling contracts at the facility and to reprocure recycling services with other qualified facilities. Further, another qualified facility located in Louisiana was precluded, for the majority of FY 2007, from receiving Maritime Administration contracts while the State assessed concerns related to the potential risk of transmitting aquatic invasive species from biological growth on vessel hulls. On December 13, 2007, the State of Louisiana agreed to accept vessels from the Beaumont Reserve Fleet (BRF) after vessel hulls have been cleaned according to the Maritime Administration's protocol.

Statutory restrictions in the Toxic Substances Control Act (TSCA) and other environmental regulations preclude foreign dismantling of obsolete vessels as a viable option. TSCA prohibits the export of polychlorinated biphenyls (PCBs) and would require a lengthy formal Environmental Protection Agency (EPA) administrative rulemaking process for an exemption allowing the export of Maritime Administration's obsolete vessels containing PCBs above the regulated limit.

When the program started in FY 2001, there were 115 non-retention ships. Through the end of May 2008, the Maritime Administration has awarded dismantling contracts on 112 ships, has removed 104 ships from the fleet sites, has completed disposal action on 85 ships, and has downgraded 94 ships from retention to non-retention status, adding them to the disposal queue. There are 99 non-retention ships currently in the disposal queue that are not under contract for dismantling or disposal by other means.

The Maritime Administration first reported to the Congress in 2002 that because of several factors it was unlikely to meet the statutory deadline. These factors included insufficient domestic capacity; the lack of any active, qualified recycling facilities on the West Coast; the large influx of additional obsolete ships into the program; and the lack of access to foreign recycling. Domestic recycling capacity remains limited in spite of recent robust demand for ferrous and non-ferrous scrap metal by both domestic and foreign smelters and the Maritime Administration projects that the program will be able to recycle 20-25 ships per year as long as the price of scrap steel remains at levels above \$300 per ton. Significant decreases or volatility in the price of steel will result in a decrease in demand and dismantling production throughput.

Ship Disposal Alternatives

Domestic Recycling and Contractor Performance – Currently, domestic recycling is the most expedient and cost-effective disposal alternative compared to the transfer of ships for use in Navy deep-sink training exercises, artificial reefing, or ship donation. With the increase of scrap metal commodity prices, the Maritime Administration has seen an increase in the number of domestic companies it has pre-qualified for dismantling services since 2004.

In FY 2001, Maritime Administration contracts involved only three domestic companies. Since then four additional domestic companies have been awarded ship dismantling contracts; two of those companies are located on the East Coast. However, the state of the

domestic industry is uncertain as shown by the closing in 2007 of one of the two East Coast facilities and concerns by the State of Louisiana related to invasive species that precluded the award of recycling contracts to a qualified facility located in New Orleans for the majority of 2007.

The Maritime Administration is working to identify cost-effective, qualified facilities on the U.S. West Coast and has pre-qualified one contractor that would establish a dismantling facility in Vallejo, California if awarded a contract. This facility is currently working to secure the necessary permits needed to commence operations.

In FY 2001, six ships were disposed of domestically through contract awards to three different facilities. The final unit costs were approximately \$253 per ton. In FY 2003, the Able UK contract involved the export of 13 ships at a unit cost of \$144 per ton; with the barter provision for title to two additional obsolete ships, the total disposal unit cost for the 15 ships was \$104 per ton. Since FY 2003, the per ton disposal cost has continued to decrease. The cost per ton in FY 2008 is currently a positive value because 12 out of 16 contracts awarded thus far have been vessel sales, not fee-for-service contracts. The decrease in per ton costs since FY 2001 is attributable to a combination of factors, including potential competition by foreign proposals, increased competition among domestic contractors, and an increase in the domestic and international market price of recyclable steel. While the decrease in per ton cost is encouraging, the capacity limitations of the domestic disposal industry show little potential for increases in the current annual disposal rate of ships.

Moreover, even at award rates that are lower than the industry's potential capacity, the throughput limitations of many domestic facilities often result in significant post-award delays by contractors in removing the vessels from the fleets and commencing dismantling work. This is particularly true when multiple ships are awarded at the same time to the same facility. Over the past two years, many of the Maritime Administration's qualified domestic facilities have had significant production throughput problems, significantly delaying completion of recycling projects awarded by the program. It is not uncommon for domestic facilities to request significant schedule extensions for completing the work beyond the original contract performance period, only a portion of which can be defined as excusable delays. Increasing schedule overruns by dismantling contractors are anticipated to continue in FY 2008 as the limits of domestic capacity and capability are reached. While timely performance of many of the contractors in the limited domestic ship disposal industry is at times a challenge to the Program, it had been considered manageable because of the direct, hands-on project/contract management and on-site facility oversight applied by the Maritime Administration.

The Navy's program currently awards recycling contracts to only two domestic facilities, which is sufficient to meet its reduced projected dismantling rate of fewer than five ships per year. The two Navy contractors are also qualified contractors under the Maritime Administration's program and are considered the two domestic facilities with the greatest current capacity. One of the two contractors has several on-going Maritime Administration disposal contracts in addition to Navy work and the other currently has only Navy recycling projects. The combined effect of the Navy and Maritime Administration awards to these two

contractors has the potential to exceed their capacity for FY 2008 barring some unforeseen increase by those facilities in resources and production throughput. Due to a work backlog one of these two contractors was not active in pursuing Maritime Administration ships for most of FY 2007 and indicated to the Maritime Administration that it may not be able to respond to the Maritime Administration's solicitations into FY 2008. The overall capacity, resources, and management of all domestic contractors will be tested given the significance of disposal awards scheduled for completion in FY 2008; and, in light of the number of vessel awards anticipated for 2008 by both Programs.

Foreign Recycling - The Maritime Administrator's sole foreign recycler, AbleUK, is now working to acquire the national Waste Management License (WML) required for its facility. The four vessels exported as part of their original contract cannot be dismantled until the WML is issued, which is expected in May 2008.

Because of the statutory restrictions of TCSA, as mentioned in the overview, the Maritime Administration has put a hold on accepting new proposals for foreign recycling; however, the foreign proposals previously submitted are being evaluated. The Maritime Administration is currently in the iterative process of evaluating foreign recycling proposals involving two countries other than the UK. The effective loss of vessel export as a viable disposal option has prevented the Maritime Administration from taking advantage of very cost-effective proposals, including some that are revenue producing to the government. These options would be especially valuable for the Maritime Administration's vessels on the West Coast where there is only one provisionally qualified facility for vessel disposal, which thus far has not successfully won a competitive procurement.

Artificial Reefing - The use of obsolete ships as artificial reefs has potential that is currently constrained by limited demand for ships by the coastal States. The limited demand is a result of a general reluctance of States to be responsible for the preparation, tow, and sinking of the ships, and to share in the significant costs associated with reefing activities. In FY 2006, the Maritime Administration was granted a legislative change that provides the flexibility to determine the time and place of vessel transfer to a coastal State. This change will allow the Maritime Administration to take an active role and share more responsibilities for preparing a ship for reefing, if it is determined to be in the best interest of the Government. Cost sharing with the States also has the potential to increase demand to some degree. The Maritime Administration has the authority to provide financial assistance to the States and will consider such requests if they are comparable to the costs of other feasible disposal methods. Also, the Maritime Administration will consider providing significant financial assistance to States only for vessels considered to be a higher disposal priority. However, higher priority ships are not typically good candidates for artificial reefing.

Best Management Practices (BMP) for the preparation of ships to be used as artificial reefs have been developed through the interagency efforts of the Maritime Administration, EPA, Navy, National Oceanic and Atmospheric Administration (NOAA), United States Coast Guard (USCG), Army Corps of Engineers (ACE), and National Marine Fisheries Service (NMFS). The BMPs were implemented in FY 2006 and will provide consistent vessel preparation guidance nationwide. However, the BMP requirements call for the removal of

all solid PCBs above the regulated limits or application for a risk-based approval to dispose of PCBs in a marine environment. This stringent requirement related to PCBs could negate potential cost advantages of artificial reefing compared to conventional dismantling.

In the last two years, the vessels TEXAS CLIPPER I and VANDENBERG have been transferred to the States of Texas and Florida, respectively, for reefing preparations. The TEXAS CLIPPER I was sunk as a reef in November 2007. The VANDENBERG is scheduled to be sunk in the summer of 2008. In addition, the Maritime Administration currently has one additional ship in the approval process for use as an artificial reef in the Cayman Islands.

Vessel Sales - This is a low-revenue to no-cost option to the Government for certain vessels. Prior to 2006, the sale of vessels was not a significant disposal option. Beginning in FY 2006, the increase in vessel sales was attributable to the increased market price of steel; however, because of market volatility it is not likely that the sale of obsolete ships can be relied upon for a significant number of disposals on an annual basis. The seven vessels sold in FY 2007 include the sale for re-use of three obsolete vessels deployed in Japan that were recently downgraded and that would have otherwise been returned to the U.S. for disposal at significant expense.

Given the demand for scrap metal in international markets, the Maritime Administration continues to receive numerous inquiries for the sale of its obsolete vessels to foreign ship recyclers. However, because of the restrictions that the TSCA imposes on the export of Maritime Administration ships that contain regulated levels of PCB's, foreign sales for recycling currently is not a viable option.

Vessel Donation - Donation of vessels is based on requests from non-profit historical preservationist and humanitarian groups. Historically, donation has not been a significant disposal option; however, the Maritime Administration has established a formal donation program to support the efforts of legitimate not-for-profit groups to acquire and preserve vessels. The formal program replaces the previous practice where organizations obtained special legislation for the donation of ships. The authorization for the formal program is contained in Section 3512 of Pub. L. 108-136, The National Defense Authorization Act for Fiscal Year 2004.

Navy Fleet Training Exercises – Referred to as SINKEX, the joint Navy and Maritime Administration project to provide target vessels for Navy at-sea live-fire training exercises is a low-volume option with costs comparable to artificial reefing. Vessels are prepared for sinking by the Navy in accordance with procedures that protect the environment as set in 40 CFR 229.2. The feasibility of the Navy fleet training exercise as a viable ship disposal option for the Maritime Administration will depend on estimates from the Navy that are comparable in cost to the Maritime Administration's other disposal alternatives. A sink exercise rate of one to two ships per year is considered feasible.

Ship Disposal Funding

In FY 2007, the program operated under a continuing resolution at FY 2006 funding levels, which included \$12.5 million for the disposal of obsolete ships and \$8.3 million (after reprogramming) for the continued decommissioning process for the nuclear reactor and hazardous materials on board the retention vessel NS SAVANNAH. FY 2008 appropriations included \$14.0 million for ship disposal and \$3.0 million for the NS SAVANNAH.

Despite exceeding the targeted goal for contract awards, there was a carryover of \$14 million in unobligated FY 2007 funds into FY 2008. Factors affecting this carryover balance from FY 2007 to 2008 include the temporary suspension of vessel removals addressed later in this report, market conditions enabling sales contracts in lieu of fee-for-service contracts, and competitive bidding for fee-for-service contracts. Unobligated carryover resources will be needed for continued contracting activity due to lower demand for scrap steel and other nonferrous metal, increasing tow costs, increasing costs associated with regulatory compliance activities related to invasive species mitigation through hull scamping, and costs associated with exfoliating paint mitigation. A major benefit of the carry-over is that the additional disposal awards into FY 2008 CR period will level out the flow of dismantling work to the industry and thereby allow the industry to keep a level work force employed.

Ship Disposal Performance Measures

The Program's annual performance measures of vessels awarded, vessels removed, and vessels disposed of are the best and most direct measure of progress in disposing obsolete ships and meeting the Department's environmental stewardship targets. The Department's ability to meet future performance targets is based on factors including, but not limited to, the following:

- Timing of annual appropriations.
- Feasibility of disposal options available to the Program.
- Legal challenges to Program initiatives.
- The competitiveness, capability, capacity, production throughput of recycling facilities.
- The costs of aquatic nuisance species sampling, assessment, and threat mitigation.
- The costs of environmental remediation of hazmat streams present on the obsolete ships.
- The market price of recyclable steel.

Negative trends in any one of or a combination of those variables can significantly affect the attainability of the performance targets. The targets for each year are established during the annual budget request process a year and a half prior to the specified budget year.

The three performance measures listed below are the major milestones of the ship disposal cycle. The annual cost-per-ton measure is indicative of the Program's efficiency even though variables that can significantly affect that particular measure, such as the market price of recyclable steel, are beyond the Program's control. Actual results for FY 2008 are through May 31, 2008.

The difference (Δ) between the targets and actual results for vessel awards, removals and disposals over the last seven years shows that targets have been exceeded over the long term despite missing annual targets twice in the last eight years. The positive differential (Δ) between targets and actuals is indicative of the Program's overall progress and effectiveness.

Number of contract awards for the removal of obsolete vessels from the National Defense Reserve Fleet sites for subsequent disposal.

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>Totals (thru 5/31/08)</u>
Target:	3	3	11	14	15	13	13	12	96
Actual:	6	2	15	13	20	21	23	12	112 (Δ +16)

Number of obsolete vessels removed from the National Defense Reserve Fleet sites for subsequent disposal.

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>Totals (thru 5/31/08)</u>
Target:	3	3	4	4	15	13	13	16	71
Actual:	6	6	2	15	18	25	20	15	107 (Δ +36)

Number of obsolete vessels disposed of (i.e., disposal action completed) from the National Defense Reserve Fleet sites.

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>Totals (thru 5/31/08)</u>
Target:	3	3	4	4	15	15	15	16	75
Actual:	4	9	3	6	13	20	20	11	86 (Δ +11)

The table below indicating the average cost-per-ton for disposal actions for Fiscal Years 2001 through 2008 based on the value of contract awards. The figure for Fiscal Year 2008 is a projection. Disposal actions include vessel sales, legislated sales, donations, artificial reefing, and dismantlement service contracts. All Suisun Bay Reserve Fleet (SBRF) vessels (California) are awarded to recycling facilities in Texas because the absence of qualified dismantling/recycling facilities on the West Coast, and include a significant cost premium for the 5000+ mile tow and transit of the Panama Canal. For FY 2005 and FY 2006 costs associated with SBRF vessel awards were ranging \$0.6 million to \$1.0 million higher than for James River Reserve Fleet (JRRF) or BRF vessels. Notwithstanding the premium paid to dispose of the SBRF ships domestically, the overall Program cost-per-ton has decreased from FY 2004 to FY 2007. The cost decrease during this period is a result of rising scrap market steel prices and strong domestic competition that did not exist prior to 2004. The disposal cost per ton for the 23 vessels awarded in FY 2007 includes the sales proceeds of seven vessels. The final Fiscal Year 2008 cost per ton is anticipated to be a positive value because

the majority of contract awards are anticipated to be vessel sales. The cost per ton figures includes all costs associated with vessel tow preparations, towing, National Invasive Species Act (NISA) compliance, hazardous material remediation, and disposal.

Annual Program Cost/Ton								
Based on Disposal Actions Awarded in the Fiscal Year								
	FY 01	FY 02	FY 03	FY 04	FY 05	FY 06	FY 07	FY 08
Number of Ships	6	2	15	13	20	21	23	12
Target (Cost)/Ton	(\$250)	(\$250)	(\$200)	(\$150)	(\$175)	(\$200)	(\$200)	(\$170)
Actual (Cost) or Revenue/Ton	(\$253)	(\$127)	(\$182)	(\$106)	(\$106)	(\$86)	(\$79)	\$21

Ship Disposal Solicitation - Test Program for Certain Commercial Items

Utilizing the Federal Acquisition Regulation (FAR) Test Program for Certain Commercial Items (TPCCI), in January 2005 the Maritime Administration implemented the use of Standing Quotations as the primary procurement method for soliciting ship disposal services. The use of Standing Quotations is a simplified acquisition procedure for the competitive procurement of commercial ship dismantling/recycling services. The Standing Quotation process allows interested vendors to submit quotations and proposals on a continuous basis. Since it is not possible to predict which vessels may have a positive recycling value to contractors (offerors), the Standing Quotation process includes a solicitation for both sales (purchase) offers and fee-for-service offers. Those ships not receiving purchase bids are considered for fee-for-service contracts. Proposals are evaluated, and those offers determined to be technically acceptable from the pool of standing quotations are considered for award. Based on the evaluation criteria posted in the Request for Quotation, contracts are then awarded for the offers that represent the best value to the Federal Government. The TPCCI, which expired on December 31, 2007, was extended by the Congress. The Maritime Administration has posted a phased vessel sales and fee-for-service solicitation that will allow revised prices and contract awards through the TPCCI program for FY 2008.

Ongoing Program Challenge - Foreign Recycling Contracts

In FY 2003, the Maritime Administration awarded a contract to export 15 ships (including two vessels to be transferred in a vessel sales agreement) to Able, UK Ltd., the only facility outside the U.S. qualified by the Department of Transportation (DOT) and EPA to dismantle U.S. government-owned ships. Also in 2003, with four of the ships already in Able UK custody, the Sierra Club and the Basel Action Network sued alleging that the Maritime Administration and EPA had violated TSCA and other environmental statutes. A temporary restraining order was issued with respect to the nine remaining vessels identified for dismantling in the Able UK contract (the four ships towed to Able UK in 2003 and the two post-1980 built PCB-free ships were not subject to the temporary restraining order). Although this suit was dismissed, the Sierra Club has indicated to the Maritime

Administration and EPA that there would be further litigation if the Maritime Administration attempts to export the remaining vessels in the contract for disposal at Able UK.

A separate legal challenge in the UK resulted in Able UK being required to reapply for its local planning permissions/licenses and a Waste Management License for the facility upon gaining the local permissions. Able UK was expecting to gain the required local permits in October 2006, with approval by the Hartlepool Borough Council (HBC); however, the HBC refused to approve Able UK's applications, despite a nearly unanimous recommendation for approval by HBC's own planning review committee. Subsequently, discussions with Able UK and the UK Environmental Agency (UKEA) resulted in a modification to the original contract that will permit the recycling of only the four ships currently in Able UK custody, plus the two post-1980 built (PCB-free) vessels. The additional tonnage (approximately equivalent to nine ships) specified in the original contract has since been disposed of in domestic facilities. In October 2007, Able UK successfully reacquired its local planning permits and licenses related to the recycling of obsolete ships at the facility. Able UK is in the process of reapplying for its national waste management license from the UKEA which would permit the recycling work to begin on the Maritime Administration ships.

Regardless of the ultimate outcome of the AbleUK contract, it has become clear to the Maritime Administration that, under existing environmental laws and regulations, the export of ships for recycling is currently not a practicable method of disposal for the Maritime Administration or for recycling companies interested in foreign recycling. Given the legal requirements imposed by TSCA that must be met before any foreign vessel disposal can take place, the Maritime Administration is restricted to essentially using domestic recycling facilities as the only option for expedited disposal. A favorable March 2, 2005, ruling by the U.S. District Court for the District of Columbia did not provide the Maritime Administration with relief from the requirements of TSCA. While the Court concluded the environmental assessment prepared by the Maritime Administration fully met its obligations under the National Environmental Protection Act (NEPA) and dismissed the plaintiff's complaint, the court's ruling does not remedy the underlying environmental issues under TSCA that triggered the legal action initially.

New Program Challenge - Aquatic Nuisance Species

In addition to challenges related to TSCA and PCBs, the Maritime Administration faced a new environmental challenge starting in FY 2006 that had, and will continue to have, significant budget and disposal rate implications for the foreseeable future. The Maritime Administration was notified by the USCG in the first quarter of FY 2006 that their obsolete ships were required to comply with 33 CFR Part 151, Subpart D (pertaining to aquatic hull growth), which became effective in September 2004 and is the USCG's implementing regulation for the NISA. The Coast Guard's regulations apply to "operating vessels" but they have determined that obsolete vessels under tow enroute to recycling facilities are "operating vessels" within the meaning of this regulation. The USCG interpretation is meant to address the potential environmental hazard in that the movement of ships for disposal might serve as a vector for transmitting invasive species, and now the Maritime

Administration must comply with the USCG interpretation and application of NISA and its regulations in administering ship disposal activities.

Consistent with preamble statements in both the 1999 and 2004 rulemakings, in 2007 the Coast Guard amended 33 CFR 151.2010 to clarify that the Subpart D regulations do not apply to armed forces vessels, inclusive of USCG vessels. The Uniform National Discharge Standards (UNDS) Amendment, 33 USC 1322(n), was added to the Clean Water Act in 1996. It mandates that the Department of Defense (DOD) and EPA jointly promulgate rules to control incidental discharges from armed forces vessels. Among the discharges identified for control was ballast water and “ship husbandry” or hull cleaning. The Navy anticipates that the UNDS Phase II and Phase III requirements for ballast water and underwater ship husbandry will fully address the control of invasive species in or on DOD vessels. In the spring of 2006, the USCG and the Maritime Administration reached an agreement to accomplish in-water hull cleaning (commonly known as “scamping”) to remove soft aquatic growth prior to the movement by tow of DOT’s non-retention merchant vessels.

Compliance with these regulations since early FY 2006 has resulted in significant additional costs associated with the use of mechanical hull cleaning methods. This interim mitigation action, which was developed into a hull cleaning best management practice by the Maritime Administration, was agreed to by the USCG while the Maritime Administration developed a programmatic plan for defining and taking appropriate steps to reduce the potential risk of transferring non-native aquatic species. In addition, because there is little science that defines the risks of transferring aquatic species by hull fouling from one specific geographic location to another, the Maritime Administration has been involved in research to identify potential invasive species on its vessels, risks related to various disposal alternatives, and possible mitigation measures appropriate to identified risks.

Compliance with these regulations has also impacted the removal rate of ships from Maritime Administration fleet sites and added significantly to ship disposal costs in FY 2006 and beyond environmental compliance costs to date total of \$4.3 million for 42 ships, an average of approximately \$103,334 per ship. The potential exists for even greater costs and disposal delays if research shows that the interim hull cleaning measures currently in effect do not sufficiently reduce the risk of invasive species transfer.

In August 2006, the State of California raised concerns that the in-water cleaning of hulls by the Maritime Administration prior to their tow might release hazardous materials contained in some hull coatings into State waters, and that the practice possibly violated the CWA and might require permitting by the California State Water Quality Control Board (WQCB), a division of the California State EPA. The Maritime Administration is still engaged in discussions with the regional WQCB for San Francisco Bay to determine whether the in-water hull cleaning activities are subject to additional regulatory requirements at the State or local level.

The situation in California placed the Maritime Administration in the position of negotiating with each State and local jurisdiction in order to continue transporting vessels for recycling.

On February 21, 2007, the Maritime Administrator issued a temporary suspension of any additional movement of non-retention vessels from the NDRF anchorages in California, Texas, and Virginia. This action was precipitated by the aforementioned concerns of regional WQCB for San Francisco Bay, the possibility of legal challenges to hull cleaning and disposal activities from other State and local jurisdictions, and to avoid violating any Federal, State, and local laws that may now apply to these vessels due to the USCG's hull cleaning requirement. The suspension was intended to remain in place until agreements were reached with USCG, EPA, and officials from those three states that sufficiently address the known and reasonably foreseeable issues related to alleged violations of the NISA and the CWA. Since the suspension, the Maritime Administration has consulted with the Department of Justice, USCG, the Navy, Office of Management and Budget, and the affected States to determine which laws are applicable and to identify potential legal jeopardy when the program resumes.

States affected include California, Texas, and Virginia, where the Maritime Administration's reserve fleets are anchored and where pre-tow hull cleaning activities occur, and the states where qualified recycling facilities are located, which in addition to Texas and Virginia includes Louisiana. Since the suspension, the Maritime Administration has reached agreement with Texas and Virginia with regard to in-water hull cleaning, and with Virginia, Louisiana, and Texas to allow vessels that have been cleaned in other geographic locations into their State waters for disposal.

In summary, State-by-State status is as follows:

- Virginia has agreed to allow ships to be scamped in the JRRF, which is located in Virginia.
- The State of Texas has agreed to allow ships from the BRF site to be towed to Brownsville, Texas without scamping; however, in order to further reduce potential environmental risk, the Maritime Administration is scamping those vessels. Texas has also agreed to allow scamping in its waters at the BRF and has agreed to allow ships into State waters for recycling from all sources, if the ships' hulls are cleaned prior to arriving in State waters.
- Louisiana has agreed to allow Maritime Administration vessels that originate in Texas into its waters after hull cleaning, but has not yet agreed to allow ships from Virginia or California into its waters.
- California has not agreed that the ships can be cleaned in its waters and has indicated such cleaning may constitute a violation of the CWA. The State's current position is that total containment of the solid and liquid scamping discharge is required.

Because of the agreements reached with the States of Virginia, Louisiana, and Texas, the Maritime Administrator has partially lifted the disposal suspension to allow the removal of JRRF and BRF ships to qualified facilities from those sites. Hull scamping and removal of vessels at the SBRF site will not resume until the Maritime Administration and the regional WQCB can resolve concerns related to hull scamping discharge containment.

Discussions with the San Francisco regional WQCB have yet to result in an agreement to allow the conduct of in-water hull cleaning. The primary issue producing the present impasse is the potential discharge of hazardous substances from hull coatings during the scamping process. The San Francisco regional WQCB originally asked the Maritime Administration to contain some of the particulate discharge during scamping but now wants to require containment of all liquids and solids. There is no known operational in-water hull cleaning technology that can totally contain all liquid and solid discharges. The San Francisco regional WQCB wants the hull cleaning to occur in dry dock. Dry docking is one of the alternatives the Maritime Administration is exploring; however, this alternative includes significant risk and liability issues associated with dry docking older vessels whose hull integrity may be compromised in dry dock.

Complicating the resolution of the issues with the San Francisco regional WQCB is the recent filing of a lawsuit against the Maritime Administration by the Natural Resources Defense Council (NRDC) in California related to the scamping and exfoliating paint issues of the SBRF vessels and the involvement in this lawsuit of the California State Lands Commission, from which the Maritime Administration leases the SBRF site. In addition, because of the potential liability faced by the Maritime Administration as custodian of ships owned by other agencies that are moored at Maritime Administration fleet sites on a reimbursable basis, on March 9, 2007; the Maritime Administration notified the Navy, USCG, NOAA, and the ACE that their ships in the Maritime Administration's reimbursable custody would not be released until they had provided documentation showing that the local and State governments of the vessel's destination agree to accept the vessels from those agencies upon satisfaction of NISA requirements. The Maritime Administration authorized release of Navy ships on May 25, 2007, after the Navy gave written acknowledgement of the potential liabilities that they faced and assumed all responsibility for same.

While diligently pursuing a resolution in California, the Maritime Administration is in the process of developing a new programmatic Environmental Assessment (EA) to supplement and update a programmatic EA prepared in 1997. The Maritime Administration has also engaged a contractor to develop BMPs for reserve fleet operations that is a part of the Administrator's Environmental Excellence Initiative (EEI). It is anticipated that the BMPs will be implemented in all three reserve fleets during the summer of 2008. Meanwhile, the program is continuing with recycling awards to remove and dispose of lower priority vessels in the JRRF and BRFF and despite the impasse in California, non-retention ship award, removal and disposal goals for FY 2008 will be met.

Transfer of Ships to the Navy for Disposal

The National Defense Authorization Act for Fiscal Year 2006, P.L. 109-163, Section 3505(b); 119 Stat. 3552 (2006) required the Maritime Administration to transfer at least four obsolete ships to the Navy for disposal through its vessel disposal program. A similar requirement to transfer an additional three ships to the Navy in FY 2007 appeared in the John Warner National Defense Authorization Act for Fiscal Year 2007, P.L. 109-364, Section

35040; 120 Stat. 2517 (2006). In 2008 a requirement to transfer an additional three ships appeared in the National Defense Authorization for Fiscal Year 2008 (Title XXXV of H. R. 1585, Section 3502 of Subtitle A).

Prior to passage of the 2006 Department of Defense Authorization Act, the Maritime Administration informed the House Armed Services Committee staff that a transfer of vessels to the Navy for disposal via the Navy's existing recycling contracts provided little economic or convenience advantage to the Maritime Administration. Since the Maritime Administration has more qualified recycling facilities than the Navy, and the two Navy facilities are also Maritime Administration qualified facilities, the use of the Navy's recycling contracts offered the Maritime Administration no additional recycling capacity or competition.

The Maritime Administration and the Navy entered into a Memorandum of Agreement (MOA) in 2003 to transfer vessels to the Navy for use in the Navy at-sea, live-fire training exercises that result in vessel deep sinking, commonly known as the SINKEX program. In 2005 and 2006 the Maritime Administration identified and provided Navy with funding to accomplish the environmental preparations for SINKEX on six additional ships, only one of which has been used by the Navy in Fleet training sink exercises. The remaining vessels are still moored in California and with no firm plans by the Navy to include the five ships in future SINKEX exercises. If exercise opportunities for the other five ships do not occur in FY 2008, those vessels will be withdrawn and placed in the disposal queue by the Maritime Administration. Through FY 2007, one vessel had been transferred by the Maritime Administration to be recycled under an existing Navy recycling contract.

For FY 2008 and pursuant to the current Maritime Administration/Navy MOA, three Ex-Navy vessels were identified to and accepted by the Navy in January 2008. Since that time, the Maritime Administration has been notified by the Navy that, for various technical and legal reasons, they were not able to accomplish all of the requirements contained in a typical Maritime Administration ship recycling contract such as vessel departure assistance (in the form of line handlers) and assist tugs to remove ships from the anchorage at the Maritime Administration fleet site. This notification of limited capability is in conflict with the Navy requirements delineated in the current MOA. Additionally, the Navy notified the Maritime Administration that it would not be able to accomplish the pre-departure cleaning of aquatic growth from the ship's underwater hulls.

In spite of those limitations, and in an effort to comply with the Congressional intent behind the vessel transfer legislation, the Maritime Administration agreed to contract for the line handlers, assist tugs and underwater hull cleaning even though the cost and efficiency of such action would be factored into the Economy Act Determination and Findings (D&F). The D&F requires the requesting agency (Maritime Administration) to make an assessment as to convenience as well as economy of the costs and other factors involved with the serving agency (Navy) accomplishing the work.

For FY 2008 and pursuant to the current Maritime Administration\Navy MOA, three ex-Navy Maritime Administration-titled vessels were identified and accepted by the Navy in January 2008 for solicitation under Navy ship dismantling contracts. Since market conditions are favorable for the sale of additional Maritime Administration non-retention ships and because the existing Navy ship dismantling contracts cannot accommodate vessel sales, the Maritime Administration retracted its requests to the Navy to include the three ships identified for transfer earlier this year in their solicitation process. The three ships will now be included in the next Maritime Administration recycling solicitation scheduled for posting June 2, 2008.

Comprehensive Management Plan

The FY 2006 Authorization of Appropriations, Title XXXV, Maritime Administration, P.L. 109-153, Section 3505(a), 119 Stat. 3551 (2006) contained a requirement for the Maritime Administration to develop a Comprehensive Management Plan (CMP) for the disposal of its obsolete ships. The CMP was developed, implemented, and delivered to the Congress in July 2006. The plan addressed the Program's strategy, performance measures, funding, and decision-making framework for ship disposal in addition to identifying external factors that could affect execution of the plan.

The Maritime Administration's disposal strategy, as discussed in the CMP, continues to be an integrated plan that includes the elements considered critical for both the long-term disposal strategy and short-term disposal decisions. The Program's emphasis continues to be the expedited disposal of obsolete ships presenting the greatest environmental risk. Artificial reefing, donation, use in the Navy Fleet SINKEX training exercises, and sales are less effective at reducing environment risks because the best candidates for those disposal options are generally vessels that are cleaner and in better condition. The Maritime Administration's responsibility in this area is first and foremost the mitigation of environmental threats posed by older, deteriorated hulls that contain residual oil. While the Maritime Administration's disposal strategy continues to focus on dismantling/recycling as the most expeditious option currently available, all disposal options are continuously being evaluated.

Through the use of full and open competition, the Maritime Administration continues to utilize all feasible disposal options available to achieve an environmentally acceptable end. Maritime Administration goals contained in the Comprehensive Management Plan include:

- Eliminating the backlog of high priority vessels accumulated in the 1990s. This has nearly been accomplished with only four high priority vessels not under contract for disposal remaining in the Maritime Administration fleet sites.

- Removing from the fleet sites all “high” and “moderate” priority ships at a target rate of 20-25 ships per year. Elimination of the remaining 28 high and moderate priority ships not currently under contract for disposal also mitigates the greatest threats to the environment. Twenty-three of the 28 priority ships are located in the SBRF in California. The number of vessels removed by each disposal alternative will be determined by industry proposals/pricing, funding availability, suitability of each ship for the disposal methods available/proposed, the outcome of foreign recycling legal challenges, the availability of obsolete ships for disposal (i.e., not on hold for historical assessment or for donation), and other factors.
- Maintaining only “low” priority/low-risk ships at the fleet sites. The long-range target number of low priority obsolete vessels to be maintained on an annual basis is a total of no more than 70 at all three fleet sites. With the projected designation of four to five Maritime Administration and DOD sponsored retention ships per year into the non-retention category, an annual removal rate of 20-24 ships will have to be maintained for 2-3 years beyond 2008 in order to achieve and maintain an obsolete vessel fleet size at a maximum range of 50-70 ships.
- Having level annual funding that permits the “end state” near-term annual disposal rate of 20-25 ships and then a level of funding in the out years that permits the disposal of at least the number of ships that are designated as obsolete on an annual basis. A failure to achieve an adequate level of funding and to maintain all disposal options will result in an accumulation of obsolete vessels, as occurred in the 1990s. This is true even with a significant number of obsolete vessel sales because of the high costs associated with environmental issues and towing costs due to the high fuel prices.

Critical factors that impact the achievement of a realistic and environmentally responsible disposal “end state” include:

- The availability of foreign recycling as a viable disposal option in 2009 and beyond, particularly for West Coast vessels that currently must be towed 5000+ miles to be recycled domestically in Texas.
- Sufficient funding levels in 2008 and beyond to allow consideration of proposals that include economies of scale.
- Designation of a majority of vessels as obsolete in the future that are in “fair” or “good” condition.

FY 2008 Disposal Actions

The ship disposal process, from contract award through dismantlement and recycling, can often span one, two, or even three fiscal years. Table 1 below indicates the date (bolded) for which one, two, or all three performance measures occurred in FY 2008. All FY 2008 contracts awarded have been to domestic facilities for recycling.

With awards of the vessels shown in Table 1, only four high priority ships remain in the Maritime Administration's three fleet sites. Two of the four have recently become available for disposal after being held for donation to non-profit organizations or being assessed for historical significance. One of the four is located in the JRRF in Virginia and three are located in the SBRF in California. The 23 moderate priority vessels that are not yet under contract for disposal includes 19 moored in the SBRF, one in the BRF, and the three moored in the JRRF; however, the suspension of disposal activities for SBRF ships precludes the timely removal of those ships.

Table 1: MARAD FY 2008 Disposal Actions

Ship	Fleet	Contractor	Site	Vessel Award	Vessel Removal	Vessel Disposal	Final Amount (\$)
MONTICELLO*	SBRF	Navy SINKEX	CA	9/9/05	TBD	TBD	(\$915,548)
PYRO	SBRF	Navy SINKEX	CA	9/9/05	TBD	TBD	(\$754,549)
ALLISON LYKES	BRF	S. Scrap Material Co.	LA	5/30/06	7/8/06	1/22/08	\$50,000
SAUGATUCK	JRRF	Bay Bridge Enterprises	VA	6/2/06	7/18/06	In Progress	(\$549,999)
FLORIKAN	SBRF	Navy SINKEX	CA	9/8/06	TBD	TBD	(\$396,984)
CLAMP	SBRF	Navy SINKEX	CA	9/8/06	TBD	TBD	(\$363,484)
RECLAIMER	SBRF	Navy SINKEX	CA	9/8/06	TBD	TBD	(\$363,484)
MISSISSINEWA	JRRF	Navy IDIQ (ISL)	TX	9/19/06	1/30/07	2/11/08	(\$.02)
TEXAS CLIPPER I	BRF	State of Texas (ESCO)	TX	10/3/06	11/3/06	11/17/07	(\$1,500,000)
VULCAN	JRRF	Bay Bridge Enterprise	VA	11/3/06	12/19/06	11/11/07	(\$494,000)
JASON	SBRF	Marine Metals, Inc.	TX	11/9/06	1/15/07	1/14/08	(\$2,014,821)
QUEENS VICTORY	SBRF	Esco Marine, Inc.	TX	11/9/06	12/31/06	10/4/07	(\$1,426,035)
LEXINGTON	BRF	S. Scrap Material Co.	LA	11/14/06	1/10/07	In Progress	\$1
PENN. TRADER	BRF	S. Scrap Material Co.	LA	1/5/07	1/30/07	In Progress	\$1
HUNLEY	JRRF	S. Scrap Material Co.	LA	1/5/07	3/7/07	In Progress	\$1,500
VANDENBERG	JRRF	State of FL (Colonna's)	FL	1/26/07	3/30/07	In Progress	(\$1,250,000)
CAPE CLEAR	JRRF	Esco Marine, Inc.	TX	6/12/07	7/12/07	1/9/08	(\$537,726)
STATE	JRRF	Bay Bridge Enterprises	VA	6/12/07	7/18/07	In Progress	(\$851,194)
HOIST***	JRRF	Bay Bridge Enterprises	MD	7/17/07	8/29/07	In Progress	(\$95,000)
LAKE	JRRF	All Star Metals, Inc.	TX	7/31/07	8/16/07	2/29/08	(\$454,690)
SPHINX***	JRRF	Bay Bridge Enterprises	MD	8/7/07	8/29/07	In Progress	(\$695,000)
SOUTHERN CROSS***	JRRF	Esco Marine, Inc.	TX	8/24/07	1/29/08	In Progress	(\$617,600)
CAPE CHARLES***	JRRF	Marine Metals, Inc.	TX	8/24/07	2/5/08	In Progress	(\$488,965)
SCAN***	JRRF	Marine Metals, Inc.	TX	8/24/07	3/13/08	In Progress	(\$517,642)
PRIDE***	JRRF	Marine Metals, Inc.	TX	8/24/07	1/17/08	In Progress	(\$468,609)
DUTTON	BRF	All Star Metals, Inc.	TX	9/4/07	10/2/07	In Progress	(\$997,294)
YFNB-4 (Barge)	BRF	Esco Marine, Inc	TX	11/19/07	1/17/08	4/2/08	\$33,726
BANNER	BRF	Esco Marine, Inc	TX	12/20/07	1/25/08	In Progress	(\$532,726)
BAYAMON	JRRF	All Star Metals, Inc.	TX	1/24/08	2/20/08	TBD	\$12,221
DEL VALLE	BRF	Esco Marine, Inc	TX	1/28/08	3/5/08	TBD	\$62,726
MAINE	BRF	Esco Marine, Inc	TX	1/28/08	3/13/08	TBD	\$86,726
CAPE CARTHAGE	JRRF	Esco Marine, Inc	TX	2/27/08	TBD	TBD	(\$400,726)
CAPE CATOCHE	JRRF	Esco Marine, Inc	TX	2/27/08	TBD	TBD	(\$454,726)
DEL VIENTO	BRF	Esco Marine, Inc	TX	2/27/08	TBD	TBD	(\$280,654)
CAPE CATAWBA	JRRF	Int. Shipbreaking Ltd.	TBD	3/24/08	TBD	TBD	\$25,023
CAPE CANAVERAL	JRRF	Int. Shipbreaking Ltd.	TBD	3/24/08	TBD	TBD	\$1
ADONIS	BRF	Int. Shipbreaking Ltd.	TBD	3/24/08	TBD	TBD	\$1,151,727
BUYER	BRF	Int. Shipbreaking Ltd.	TBD	3/24/08	TBD	TBD	\$148,273
EARLHAM VICTORY	SBRF	Bids Received	TBD	Pending	TBD	TBD	TBD
RIDER VICTORY	SBRF	Bids Received	TBD	Pending	TBD	TBD	TBD
GENERAL PATRICK	SBRF	Bids Received	TBD	Pending	TBD	TBD	TBD
GENERAL POPE	SBRF	Bids Received	TBD	Pending	TBD	TBD	TBD
RIGEL**	JRRF	Bidding	TBD	TBD	TBD	TBD	TBD
TRUCKEE**	JRRF	Bidding	TBD	TBD	TBD	TBD	TBD
KALAMAZOO**	JRRF	Bidding	TBD	TBD	TBD	TBD	TBD

*Navy may remove this vessel from SINKEX consideration in which case we will have to back out of the previous "award" numbers.

**Vessel transfers to Navy for disposal per the FY 2008 Nat'l Defense Authorization Act requirement.

***Initial vessels contracts were terminated for default and awarded to other contractors through reprocurement.

Note: Bolded dates indicate disposal actions completed in FY 2008

Conclusions

An aggressive program of maximizing the use of disposal funding and pursuing all feasible disposal options resulted in the award of 77 contracts to dispose of obsolete vessels in the last 4 years. Those awards and the subsequent removal of vessels from the fleet sites has reversed a trend in the growth of the number of obsolete ships in the Maritime Administration's custody.

Moreover, the award and removal of the majority of the program's high priority ships has significantly mitigated the threat of residual oil discharge into the environment. Section 3502 of the National Maritime Heritage Act (P.L. 106-398, signed October 30, 2000), which extended the Congressional disposal mandate to September 30, 2006, listed 39 obsolete ships that posed the most immediate threat to the environment. Of the 39 ships identified in 2000 as high priority, only one ship has not yet been removed from the Maritime Administration's fleets. That ship will be removed from the SBRF as soon as the disposal suspension has been lifted for obsolete Maritime Administration ships in California.

These accomplishments notwithstanding, the statutory disposal deadline of September 30, 2006, for disposal of all the Maritime Administration's obsolete ships, was not met. However, as the Maritime Administration first reported to the Congress in 2002, it was unlikely that the Maritime Administration would be able to dispose of more than 115 obsolete ships then in the fleet by the deadline due to the lack of sufficient domestic ship disposal capacity and the impediments to foreign recycling contracts as a viable alternative. Those constraints still exist today despite the increase from three to seven qualified domestic disposal facilities. Without access to additional disposal alternatives, the rate of disposal is unlikely to increase beyond the current rate and the cost associated with vessel disposal is unlikely to decrease beyond current levels.

Exfoliating paint is one of many reasons that the Maritime Administration has focused vessel disposal efforts on removing the worst vessels from its fleet sites first. The Maritime Administration continues to believe that removing the ships is the most effective method for addressing all environmental risks posed by the obsolete vessels in the fleets. However, because of the ongoing challenges with NISA and the CWA that have delayed the removal of obsolete vessels, the Maritime Administration is now faced with longer-term management of the vessels. As such, this year the Maritime Administrator established an environmental excellence initiative (EEI) to review the Agency's fleet management practices in the context of long-term vessel custody. The EEI includes refining procedures for accepting vessels into the fleets, identifying and evaluating environmental risks associated with long-term custody of vessels (including exfoliating paint), and development or adjustment of management practices to reduce further environmental risk.

The Maritime Administration will continue to investigate all alternatives identified in this report, and others that are identified, to expedite the disposal of its obsolete vessels at qualified facilities and at the least cost to the Government, while giving consideration to worker safety and the environment, as required by the Floyd D. Spence National Defense Authorization Act for Fiscal Year 2001 P.L 106-398, Section 3502; 114 Stat. 1654A-490.

PROGRESS OF THE U.S. NAVY'S VESSEL DISPOSAL PROGRAM

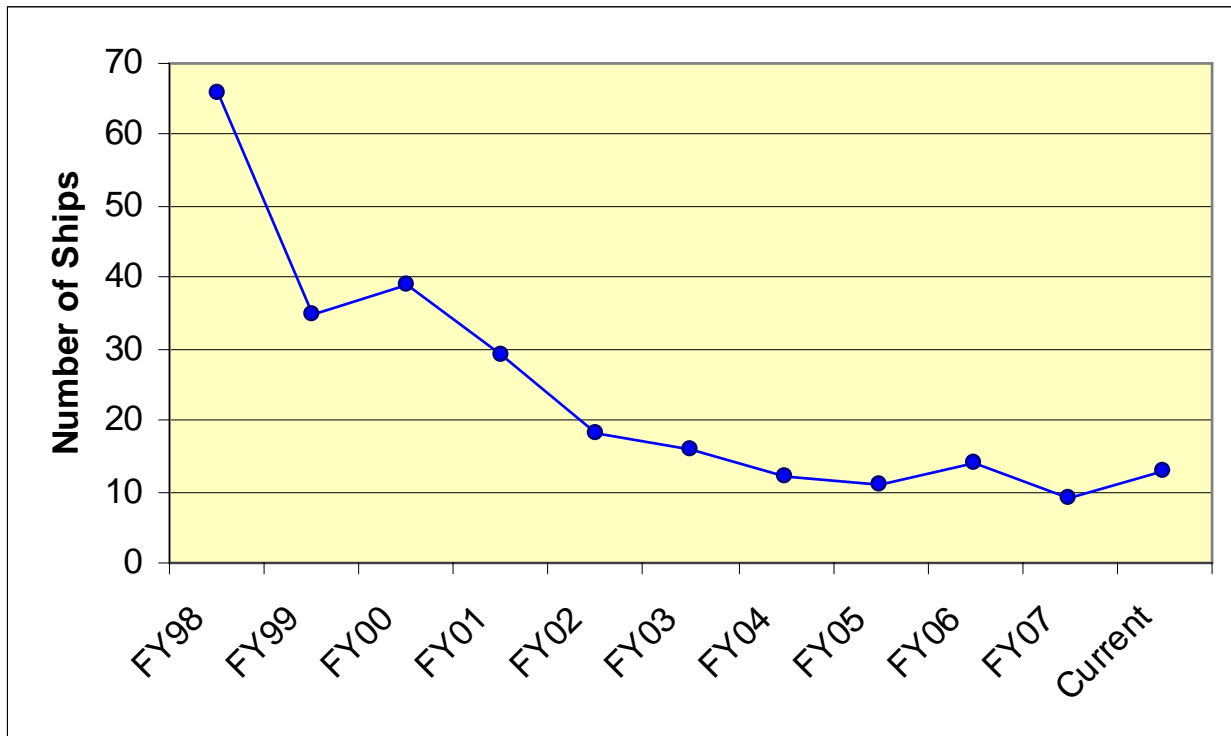
Introduction

The Navy portion of this report is submitted pursuant to the National Defense Authorization Act for Fiscal Year 2006, P.L. 109-163; Section 3505(a), 119 Stat, 3551 (2006), which requires periodic reporting by the Secretary of Transportation, in coordination with the Secretary of the Navy, on progress made in implementing plans to dispose of obsolete ships.

Navy-Titled Obsolete Vessels in the National Defense Reserve Fleet

Since fiscal year 1998, the number of Navy-titled ships stored in the Maritime Administration facilities has been reduced by eighty percent as shown in Figure 1. As of May 31, 2008, the total number of Navy-titled vessels designated for disposal remaining in the Maritime Administration (MARAD) National Defense Reserve Fleet (NDRF) facilities is thirteen ships plus two service craft. Table 1 provides information regarding the method of disposal and projected cost for disposal of these vessels.

Figure 1
Trend of Navy-Titled Obsolete Ships in the MARAD National Defense Reserve Fleet
FY98 to Present



Accomplishments since November 2007

Domestic Ship Dismantling: The Navy continues to execute its strategy of utilizing multiple ship disposal methodologies to reduce the size of the inactive ship inventory, including foreign military sales, ship donations, experimental/target use, and domestic ship dismantling. In addition, Public Law 108-136 provides authority for the Navy to transfer vessels stricken from the Naval Vessel Register directly to a State, Commonwealth, and possession of the United States, a municipal corporation, or political subdivision for use as an artificial reef.

Since November 2007, two additional Navy-titled ships have been completely dismantled and recycled under the Navy's Ship Disposal Project contracts. In addition, two ships have been contracted for dismantling since November 2007. All task orders are firm-fixed price and were competed between two ship dismantling contractors. Contract performance is administered by Navy Supervisor of Shipbuilding, Conversion and Repair USN (SUPSHIP) Bath, ME. Table 2 identifies the status of task orders under the new Ship Disposal Project contracts awarded in FY 2008. The Ship Dismantling program enables the Navy to continue reducing its inventory of stricken ships, as stated in the Senate Armed Services Committee report 107-62 of 12 Sep 2001, ensuring that ship dismantling will be completed in a timely and cost effective manner while remaining in compliance with all environmental and occupational safety laws and regulations.

Navy Fleet Exercises: Since November 2007, no Navy ships were sunk during Fleet at-sea live-fire training exercises.

Artificial Reefing: In January 2008, the Navy notified the Artificial Reefing Coordinators of member States of the Gulf and Atlantic State Marine Fisheries Commissions of the availability of the ex-ARTHUR W RADFORD (DD 968) for artificial reefing. This ship is currently located in Philadelphia and has been demilitarized, including removing the composite mast system which was potentially a floatable item. The ship was offered in an "as-is, where-is" condition meaning the organization awarded the ship will be responsible for executing and funding all the costs related to towing, environmental preparations for artificial reefing, and scuttling the ship. One application was received by the April 30, 2007 deadline and is being reviewed against the minimum requirements for award criteria advertised in the Federal Register announcing the availability of the ship.

The ex-FORRESTAL is currently being environmentally prepared in accordance with the Environmental Protection Agency (EPA) *Best Management Practices for Preparing Vessels for Use as Artificial Reefs*, and based on lessons learned from the ex-ORISKANY project. The Navy has created a comprehensive sampling plan that was used to sample the ship for Polychlorinated Biphenyls (PCBs). This plan was released to EPA Region I via Naval Station Newport, RI where the vessel is currently located. While this work is ongoing, the Navy has not advertised its availability for transfer to a State for use as an artificial reef.

Remaining Inventory: As of May 31, 2008, the Navy's inventory of inactive conventionally powered ships totaled sixty-two, including twelve retention assets for possible future reactivation, three logistic support assets held for extended Fleet stripping, and forty-seven ships designated for disposal by Foreign Military Sales transfer, ship donation for public display, domestic dismantling, or artificial reefing.

Navy/Maritime Administration Cooperation: The Navy and MARAD executed a Memorandum of Agreement (MOA) under which ex-Navy vessels are transferred from MARAD to the Navy for disposal under current Navy Ship Dismantling Indefinite Delivery/Indefinite Quantity (IDIQ) contracts that would comply with requirements of H.R. 1815 Section 3505 (FY 2006 National Defense Authorization Act) and H.R. 5122 Section 3507 (FY 2007 National Defense Authorization Act). The ex-MISSISSINEWA (AO 144) was awarded in September 2006 under the Navy contact to International Shipbreaking Ltd., in Brownsville, TX under terms of this MOA. Ex-MISSISSINEWA dismantling was completed in February 2008. The Maritime Administration had identified three ships in FY 2008 to be transferred for dismantling under this MOA; however, the offer is currently being withheld to determine whether the ships could be sold for dismantling.

Planned Activities

Domestic Ship Dismantling: In fourth quarter of FY 2008, the Navy will consider the award of a contract task order to recycle one (1) additional ship under its IDIQ contracts for dismantling.

Navy Fleet Exercises: The Navy will continue to environmentally prepare ships stricken from the Naval Vessel Register for Fleet at-sea, live-fire training exercises and in support of new ship acquisition programs. Four target vessels are being supplied to support the Rim of Pacific Exercise currently scheduled for summer of 2008. One of the four vessels is being removed from the MARAD Suisun Bay facility to support this event.

Artificial Reefing: Application(s) for transfer of ex-ARTHUR W RADFORD (DD 968) will be evaluated and a recipient selected later on in FY 2008. The ship will be removed from the inactive ship inventory and the title transferred subsequent to award.

Conclusions

The Navy remains committed to reducing and eliminating any environmental risks posed by its inactive ships, and to reducing the size of the inactive ship inventory utilizing multiple ship disposal methodologies (i.e., foreign military sale transfers, ship donations, experimental/target use, title transfers to the Maritime Administration, domestic ship dismantling, and artificial reefing) that are most advantageous to the Navy, while also evaluating additional options for ship disposal.

Delaying ship disposal creates unnecessary risks and increases life cycle costs as inactive ships designated for disposal continue to deteriorate with age and the cost to maintain them increases. However, the Navy cannot sustain full utilization of all available ship disposal methodologies with limited future budgets for ship disposal.

Table 1
Navy-Titled Obsolete Vessels in the Maritime Administration National Defense Reserve Fleet designated for disposal

Ship	Location	Method of Disposition	Projected Cost of Disposal
AFDM 2 drydock	MARAD Beaumont, TX	H.R. 1815 Section 1013 (FY06 National Defense Authorization bill) proposes to grant AFDM 2 to the Port of Port Arthur, TX	\$0
Osprey (MHC 51)	MARAD Beaumont, TX	Foreign Military Sale	\$0
Robin (MHC 54)	MARAD Beaumont, TX	Foreign Military Sale	\$0
Oriole (MHC 55)	MARAD Beaumont, TX	Foreign Military Sale	\$0
Kingfisher (MHC 56)	MARAD Beaumont, TX	Foreign Military Sale	\$0
Cormorant (MHC 57)	MARAD Beaumont, TX	Foreign Military Sale	\$0
Blackhawk (MHC 58)	MARAD Beaumont, TX	Foreign Military Sale	\$0
Falcon (MHC 59)	MARAD Beaumont, TX	Foreign Military Sale	\$0
Shrike (MHC 62)	MARAD Beaumont, TX	Foreign Military Sale	\$0
Iowa (BB 61)	MARAD Suisun Bay, CA	Donation hold	\$0
Sea Shadow (IX 529)	MARAD Suisun Bay, CA	Donation hold	\$0
Triumph (AGOS 1)	MARAD Suisun Bay, CA	Navy Fleet Exercise – RIMPAC 10	\$0
Horne (CG 30)	MARAD Suisun Bay, CA	Navy Fleet Exercise – RIMPAC 08	\$0
Fort Fisher (LSD 40)	MARAD Suisun Bay, CA	Dismantle	\$1,000,000
Higgins (AO 190)	MARAD Suisun Bay, CA	Mobilization	\$0

Table 2
Ship Disposal Project Task Order Status – Fiscal Year 2008

Ship	Contractor	Awarded	Completed	Net Cost to Navy	Cost per ton
Puget Sound (AD 38) INACTSHIPMAINTO Philadelphia, PA	ESCO Marine, Inc	Jan 2008	Estimated completion date: Feb 4, 2009	\$0.01	\$0
Trout (SS 566) INACTSHIPMAINTO Philadelphia, PA	ESCO Marine, Inc	May 2008	Estimated completion date: Mar 20, 2009	\$510,000.00	\$316